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CHAPTER III

INDUSTRIALIZATION AND ECONOMIC NATIONALISM AS RULING IDEAS

THE fundamental conception of the Three-year Plan of 1947 was to secure State control over the economic life of the country. It reflected a collectivist view, that the uses of the scarce resources of a shattered economy have to be co-ordinated by a central authority, so as to speed up reconstruction for the benefit of the community. The Plan was drawn up on the assumption that the investments required by it must be financed from domestic resources. The possibility of Hungary's participation in Marshall aid had already been blocked by Russia's decision when the Plan started. Thus the only source from which the assistance of Western capital could have been hoped for was excluded. If substantial amounts of capital expenditure were to be extracted from an economy with an extremely low income level, measures amounting to compulsion were needed to ensure the requisite saving.

The economic basis of the Plan when put into operation was a mixed system of private and public ownership in industry.[1] Direct public control was then extended only to monopolistic industries. The Plan accordingly provided for fitting private enterprise activities into its framework. A further extension of public ownership was not implicit in the Plan. Later it was claimed that its execution required the nationalization of the whole of large-scale and medium industry and of wholesale trade, but it is a matter of opinion whether the extension of State ownership on this wide scale or in a lesser degree was essential to secure a smooth working of the Plan. The decision to incorporate those branches of the economy into the publicly-owned section did not result from any investigation of economic expediency; it was taken in the political sphere. The requirements of effective planning supplied a convenient argument in support of resolutions already taken.

Retrospectively the Plan might easily appear as a scheme for extending heavy industrial potential and thereby serving Russian interests, its achievements in any other field being concomitants only of this dominant objective. In its later stage, when investment rose much above the anticipated level, the

[1] See below, p. 22.

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● 185 Plan may have assumed something of that character. But at the start the outlook was different. At any rate, after a period of privation, a serious effort had to be made to raise the standard of living, if only as a means of attaining higher efficiency. Moreover, an austerity programme, concentrating on the extension of heavy industry as its primary objective, did not fit into the political atmosphere of that initial period.

Extension in the whole field of industry strained domestic financial resources to the utmost. The redistribution of incomes and of consumption might to a moderate extent have contributed to the solution of the problem. But the solution had to be found mainly in increase of national income through enlargement of production. This call for higher production of consumer goods as well as of capital goods called in its turn for industrialization, both in the sense of expanding industry and in that of mechanizing agriculture.

464 By placing industrialization in the centre of economic policy a familiar chord was struck. It was, in fact, an axiom in Hungary in the inter-war period that only industrial expansion could solve the most urgent problem of the country, the employment of the agricultural surplus population. This question became acute after the outlet, which had been open before the First World War by way of mass emigration to the United States, had been blocked. The main conditions for industrial development were present. There was a reserve of working population more than sufficient in numbers and able to adapt themselves to the conditions of industrial work. Skilled labour was in high demand, as shown by a larger margin between the wages of skilled and untrained men than is usually experienced in the Western countries. So long as the progress of industrialization was no more than gradual, this gap could be partly filled by the attraction of foremen from abroad. Nor was technical and managerial skill wanting.

135 439 [312] Of natural resources essential for industry a great part had to be imported. Coal deposits, composed largely of brown coal, are moderate compared with those of most of the industrial countries. Water-power potential is small. Ample in supply are bauxite, natural gas, and, in a lesser degree, mineral oil. High-quality coal has had to be imported to meet the requirements of metallurgy, but otherwise coal-mining has supplied industry with the quantity wanted.[1]

[1] Output 1938: roughly 9,000,000 tons; imports: 500,000 tons. Some 10 per cent of the whole output was bituminous coal of the calorific value of 12,000–13,500 British Thermal Units (compared with 14,000–16,000 B.T.U. of British bituminous coal). Otherwise brown coal was mined mostly of a calorific value of 7,000–11,000

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CHAPTER IV

THE START IN PLANNING

BASIC CONDITIONS

THE idea of planning arose in Hungary from the doctrines professed by the Socialist and Communist Parties alike. In a community suffering from shortage of supplies and in need of capital, systematic planning in the allocation of resources appeared desirable to many who had no sympathy with collectivist doctrines. It was the problem of priorities in investment that was the principal subject of debate during the preliminary discussions. At the same time the argument was vigorously put forward that the adoption of planning would accelerate reconstruction, and might ensure the attainment of pre-war standards of consumption by the end of the three-year period. The special emphasis on the equipment of the capital-goods industries within the investment programme was not considered unnatural. The provision of plant, etc., for re-equipping industry and transport was, in fact, urgent. And heavy industry had also to produce the bulk of the goods for reparations. Finally commitments under a five-year pact with Yugoslavia had to be taken into account. This pact had been concluded in order to secure supplies of raw materials against the delivery of factory equipment which was needed for the industrialization of Yugoslavia.[1]

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The Three-year Plan of 1947 started at a moment of an extremely low level of production. The targets, if viewed by reference to the changes from year to year, may have appeared ambitious, yet the ultimate objective, that of restoring the average living standards of pre-war Hungary, was modest enough. According to the Plan agricultural production even after the elapse of three years would fall short of that of 1938; industrial output, however, was supposed to fill the gap. Thus industry was to gain in relative importance. The Three-year Plan was in its core a plan for industrialization. It provided at the same time, in the belief of its originators, the only means of raising agriculture to a higher stage of technical development. But the mechanization of agriculture was a secondary objective only. The Plan concentrated the productive effort, for economic as well as for political reasons, on making a start at converting a

[1] The execution of this pact was suspended in mid-1948, following the rupture of the Cominform countries with the Tito regime.

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185 society still mainly agricultural in structure into one highly industrialized.

471 At the time when the Three-year Plan was conceived and started, the structure of Hungarian industry was by and large 655 similar to that of any Western country which had nationalized former private monopolies. Important steps had been taken during the preceding period towards shaping this structure. Coal mining was nationalized in January 1946, heavy industry —metallurgy and the two leading engineering concerns with their subsidiaries—by the end of that year. The nationalization of the electric power stations was enacted in 1946 and that of long-distance power lines early in 1947. That private monopolies were to be superseded by public control was a principle supported by all the parties participating in the Government. It had, in particular, the endorsement of the Smallholders' Party, which then held the majority within the governing coalition. This party favoured private ownership except of capitalistic monopolies.

The decision to take over the big banks into public ownership was in line too with the principle of nationalizing monopolies. Five leading banks controlled about 80 per cent of the whole banking business, and, through a system of ramified participation, commanded considerable influence in industry. Although the law on bank nationalization, including that of the National Bank, was passed only late in 1947, State control was virtually introduced in June of that year, that is, before the start of the Plan. In mining and industry the nationalized portion was run on the principle of rigid centralization. The former independent enterprises in coal mining on the one hand and in heavy industry on the other were placed under central administrative bodies. In banking a more indirect method was chosen. A Board was set up for the co-ordination of activities.

In 1947, when Hungary embarked on planned economy, the publicly-owned section comprised almost the whole of mining, approximately 35 per cent of manufactures, 80 per cent of banking, and the whole of rail and river communications. State-ownership of railways and river shipping had existed before the war. In reviewing the relative importance of private and public enterprise, the head of the National Planning Department stated that the share of the latter in national net production averaged 35 per cent in the course of 1947–8, reaching 43 per cent by the end of this period. This statement, in view of the radical changes in the ownership of industry in spring 1948, implied that at the inception of the Plan the share of the publicly-owned section in national production was less than one-third. It was understood then in political circles that

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the economic functions acquired so far by the Government, combined with the power to control credit, investment, raw-material allocations, prices, and wages, would suffice to give effect to the Plan without further measures of nationalization. There is evidence that even the leaders of the Communist Party shared this opinion for the practical reason, if not for any other, that further nationalization could not be coped with by the bureaucratic apparatus.

In post-war Hungary, naturally enough for an economy of shortage, war-time controls were maintained.[1] Beyond that, as soon as the monetary reform had been accomplished, certain steps pointing towards a planned economy were taken.

In view of the extremely low capital resources, the authorities decided to introduce a system of credit rationing. An inter-departmental committee was set up under the auspices of the Ministry of Finance to decide the allocation of credit, in co-operation with representatives of the National Bank. The task of this committee was to make the amounts of credit granted conform to the ceiling prescribed for the issue of bank-notes. The ceiling for the note circulation was from time to time fixed by the Supreme Economic Council. Lendings of the National Bank were completely, those of the commercial banks partly, subject to the decisions of the committee. These decisions were guided by the prevailing opinion, based on general economic considerations, as to the urgency of the credit. To mitigate the rigidity of the system, a certain percentage (though gradually decreasing) of the resources of the commercial banks could be lent without central control.

Another agency which was in a position to supplant the mechanism of the market was the Raw Materials Board. The Board, in virtue of its authority to decide on the allocation of fuel and raw materials, whether they were home produced or imported, exercised wide powers of tightening control. However, the manner in which the Board used its powers did not amount to systematic planning.

The idea of the introduction of planned economy first began to take shape at the end of 1946. Communists and Socialists did not confine themselves to advocating the idea. Both parties produced draft plans, making use of expert advice, with the aid of departmental staffs placed at their disposal. The Communists asked, of course, an expert from Russia for assistance, while the Social-Democrats profited by the expert knowledge of an economist of Western outlook.[2]

[1] See p. 13.

[2] The expert of the Communist Party was E. Varga, that of the Social-Democratic Party, Nicholas Káldor.

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The Socialist Plan chose the needs of the population as a starting point and looked towards the re-establishment of the pre-war level of consumption for the working population. The aim at the same time was to bring about certain structural changes in the economy, in order to lay a foundation for successive plans of general economic expansion. In order to realize the objectives of the Plan, it was deemed necessary to develop key industries, which would provide a basis for the extension of consumer-goods industries and for the mechanization of agriculture.

To this end, the Plan determined which industries should be assigned priority for extension. Technical experts were then invited to reconcile the objectives set with existing industrial capacity, and to determine the capital investment and manpower required to fulfil the production programme. As to the methods of financing the investment planned, the idea was that the nationalized concerns should be financed by the Government, while capital for private industry was mainly to be provided by the private concerns. It was, however, suggested that the Government should also, if necessary, finance private investment.

Whether financed by the Government or from private resources, investments were to be carried out within the framework of the Plan. Arrangements between the Government and industrial groups were supposed to regulate the scale and direction of investment, thus excluding capital expenditure not conforming with the Plan. These arrangements were at the same time to provide for carrying through certain measures of rationalization on the part of the industries.

Regarding the supply of imported raw materials, the Plan presupposed that exports even at a minimum could pay for the quantities required. It was calculated that, besides these raw materials and a moderate amount of finished goods, industrial equipment to a value of roughly 2,000 million forint was to be imported in order to fulfil the investment programme over three years. It was suggested that the imports of equipment should be financed by foreign loans. Hopes were expressed that the amount mentioned would represent the maximum of foreign-loan requirements, as it was assumed that the speeding up of production by the Plan could provide for exports on a scale covering also some part of imports of industrial equipment. At that time Marshall aid had not yet been either offered or refused. The official Government Plan was drawn up from the elements included in the draft-plans of the Social-Democratic and the Communist Parties, though in some fundamental questions with more concessions to the Communists. It was possible

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to merge the two drafts without great difficulties as the Communist Plan was also adapted in its structure to the system of mixed economy.

The Socialist Plan included gross capital outlay of roughly 6,700 million forint. Replacements being some 1,600 million, the net capital outlay would be 5,100 million. The Government Plan, following rather the Communist Plan, included a net capital outlay of 6,585 million, but did not reckon in its estimates with the burden loaded on the national income by the necessity of accumulating stocks. The Socialist Plan laid less emphasis on heavy industry and contemplated a more rapid extension of light industry than the Government Plan.

Besides capital outlay the Socialist Plan estimated that the other form of capital formation, the replenishment and extension of stocks, would need 6,500 million. Towards the total not investment of 11,600 million, it was hoped that about 2,000 million would be financed by foreign loans, leaving about 9,600 million to be raised at home.

The Government Plan looked forward to a more considerable improvement in the productivity of labour than the Socialist Plan, and therefore did not reckon on so great an increase in numbers employed.

LEGAL POWERS TO ENFORCE THE PLAN

It was by the Act of July 1947 for the Implementation of the Three-year Plan that economic planning as from 1 August of that year was introduced in Hungary. The six clauses of the Act ordered amongst other things: 'Every Hungarian national in Hungary and every foreign national having a working permit in Hungary shall be required by the Government, within the limits of the decrees issued on the basis of the present Act, to carry the Plan into effect'. Clause III authorized the Government to establish a Planning Board and a National Planning Department for the elaboration of the Plan and for controlling the work of carrying it into effect. It may be mentioned that the Planning Board never acquired a leading role. It was but an inter-departmental advisory body.[1] The power of decision was vested in the Supreme Economic Council, and the National Planning Department wielded the executive power. The Government also were empowered to determine by decree the penalties for any breach of the regulations issued in pursuance of the Plan. Jurisdiction over such offences was given to a special court with accelerated procedure.

[1] See Chapter IX.

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comparable to felony under English law. Even in a case of mere negligence an offender became liable to imprisonment up to three years. In all other cases the penalty may be penal servitude up to five years and, in aggravated cases, up to ten years. Even a death penalty may be inflicted when damage is done to important plant so serious as to interrupt production.

The decree clearly aims at investing the National Planning Department with an almost absolute discretion to prosecute for economic sabotage. Thus methods of terror were introduced to enforce the Plan. It is open to doubt whether in the long run these methods were conducive to economic efficiency, in particular, in regard to the quality of work done.

THE PRELIMINARY PROGRAMME

In reviewing the initial difficulties of the working of the Three-year Plan, it should be pointed out that they did not constitute arguments against planning in general, since they were rooted in specific Hungarian conditions. At the outset one of the main obstacles to elaborate planning was the gap in statistics on production. Later on it necessitated modifying the Plan. This insufficient information on fundamental facts, and perhaps still more the deficiencies in organization, were connected with the hasty way in which the transition to a system of planned economy was staged. The National Planning Department opened its activities on 1 August, the very same day that the Plan was officially put in force. Before that date preparatory work had devolved on different departments lacking effective co-ordination.

None the less, as required by law, the National Planning Department published a Three-year Plan on 1 August 1947 in the *Official Gazette*. It included a yearly production programme for industry and agriculture, as well as a national capital programme comprising investment in agriculture, mining, industry, communications, and buildings. The Plan proclaimed that, supported by the creation of an enlarged technical equipment and by a 50 per cent increase in the productivity of labour, industrial output in the third Plan year should amount roughly to double that of 1946–7, while farm production was to be raised by about 60 per cent.

The programme of output was mostly based on a broad classification of commodities; only sixty-nine types of commodities were enumerated. When the time came to give directions to individual enterprises, the National Planning Department felt the need of further details and expanded its list to include

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250 types of commodities.[1] The lack of detailed planning is borne out by the statement of the official *Statistical Review*, according to which 62 per cent of the production of manufacturing industries was at the outset estimated in quantities, the rest in approximate values only. The percentage of estimates in quantities was as low as 32 per cent for chemicals and 40 per cent for engineering products. At its inception therefore the Plan represented, particularly in the case of consumer-goods industries, not much more than a project for extending production.

The prospects of selling the increased output were not a matter of concern for the planners. The start was made in an economy of shortage. The supply of consumer goods was at the outset far below pre-war level, and output was still limited by the availability of raw materials. Thus adequacy of demand was an issue which did not arise. In view of the prevailing conditions, it is hardly an overstatement to say that any useful article produced could be sold at a remunerative price. So there was plenty of scope for the extension of consumer-goods industries without risking difficulties of selling. No doubt a limit would eventually be reached beyond which extensions of capacity of the consumer-goods industries would raise the issue of marketing. However, the structure of the Plan itself allowed the planners a breathing space. It was not likely that general difficulties of selling consumer goods or a congestion in the products of any important manufacturing branch as a whole would arise, so long as the Plan was requiring a high rate of capital accumulation, and the extensions of capacity were mainly in the capital-goods industries. Whenever some difficulties in selling within a limited section of the market for consumer goods arose, the maladjustment could, in view of a sellers' market, be dealt with without great difficulty, usually by shifting production from one article to another within the same branch of industry. It was the responsibility of the Planning Department, in co-operation with the financial authorities, to deal with disturbances of that kind.

The conception of the planners was to raise real income step by step in accordance with the increase of supplies of food and of manufactured consumer goods. They hoped that price and wage control (existing before the Plan came into operation) could be made instrumental in attaining that end. The extent to which the handling of these controls proved successful is a separate question.[2]

The programme contemplated an increase in production more than proportional to the anticipated increase in man-

[1] The directive issued late in 1949 concerning the execution of the Five-year Plan comprised 1,500 types.

[2] On shortcomings see below pp. 50–1.

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power: production was to be doubled, whereas man-power was to increase by only 30 per cent. That presupposed an improvement of fully 50 per cent in productivity per head.

The Plan at its inception did not prescribe any specific measures for improving productivity, but it was assumed that a steadier flow of raw materials, the improvement of equipment, together with further progress in the extension of piece-work, would have the desired effect. When the Plan was half-way through, a drive for further productivity was resorted to, but with indifferent success (see pp. 87–96).

PLANNING INDUSTRIAL PRODUCTION

During the first months of the Plan period the central organ for planning was preoccupied with planning its own organization. According to a decree issued early in September 1947 a representative of the Planning Department was to be installed in each plant (above a certain size), and in each institution or office of importance. The setting up of a network of representatives dragged on for months, and meanwhile a lack of co-ordination in the activities of the different agencies prevailed. However, by the end of the first Plan year the number of Plan controllers attained some 3,000. Their duty was to supervise industrial and agricultural production.

The methods of putting the Plan into force in the nationalized concerns were different from those applied to the privately-owned enterprises. Heavy industry presents an example of the procedure in the former.

As from the end of 1946, iron and steel production, and also about 70 per cent of the heavy machine industry including electrical engineering, were brought under a central management. The new formation under direct Government control united three former private concerns and the previously State-owned Iron and Engineering Works. As soon as the introduction of planned economy had been decided, the management were told to prepare a plan covering their field of activity. It was understood from the outset that this draft plan should secure full utilization of the capital equipment, and in certain sections of production an extension of capacity. Directions as to which parts should receive this extension were at first uncertain. At a later stage of the preparatory work it was determined that the provision of additional capacity for the production of Diesel motors, and for the equipment of power stations and long-distance power lines,[1] should take first place.

[1] The expansion of capacity for electrical engineering was in accordance with the intention to develop a new network of power stations.

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433 471 For the plan to be submitted to the authorities the order books were used as a basis. At that time existing orders represented about eight months' output. These orders, in so far as they were from the Government, had already been placed with a view to the needs of reconstruction and the purposes of the plan. It was assumed that for the remaining four months' period sufficient further orders would flow in to keep the industry fully employed. In this way a production programme for a whole year was drawn up, naturally taking account of requirements for plant expansion within the concern. For the following two years no detailed plans were demanded, only suggestions on broad outlines.

195 The changes made in the draft plan, before it was incorporated into the general plan, were inconsiderable except for one point. The amount of investment proposed in heavy industry was curtailed, without changing estimates of production, on the assumption that existing plants could be more intensely exploited than the management had calculated on.

In the planning of the output of capital goods there were remarkable gaps. The programme for the equipment of the publicly-owned industries, which was drawn up in detail, was important, comprising as it did mining, iron and steel works, the greatest part of heavy industry, railways, and other communications. But the requirements of private enterprise, except those already on the order books, were not elaborated. The figures set out for investment in the different branches of light industry were not substantiated by specification of the types of equipment needed by individual enterprises, so that, at least up to mid-1948, a certain part of heavy-industry production was not really planned. The section of its capacity engaged in production of equipment for light industries worked on the basis of orders received, which usually resulted from special urgency or from pressure exerted by authorities particularly interested in the development of the plant concerned.

Under the circumstances prevailing no system of economy, whether centrally planned or not, could avoid at least so much planning as was required to set up a scale of priorities according to the urgency of needs for reconstruction and for other purposes.

In the case of heavy industry the main task of the planners evidently consisted in co-ordinating work on orders from the Government. There was quite a number of first priorities: reparations, reconstruction of railways and bridges, re-equipping of mining and heavy industry run by the Government. The point at which economic planning came in was in deciding

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presented in its subdivisions a production programme for each of the factories.

For industries generally, light and heavy, the authorities expected the quotas of production to provide for an output exceeding that of 1946–7, and producers being aware of this would take care not to make their estimates unduly low. Yet no definite directions were given in advance to what extent production should be raised. The issue was thrashed out in discussions between representatives of the different industries and the Government experts. In the course of these discussions stocks as well as prospective supplies of raw materials and other factors bearing on production were investigated. Suggestions made by industrial experts formed the basis of deliberations, and were examined and possibly revised by Government experts and labour delegates. It was in co-operation with the industrial experts, labour representatives, and authorities at this preparatory stage that the plans of the concerns and simultaneously the plans for whole branches of industry emerged. Experts of the different concerns within the same branch of industry were in contact before submitting their propositions. As the ensuing discussions with the authorities were mostly conducted in the presence of representatives of the entire branch, the distribution of work among the different concerns was also decided.

In the course of the preparatory work production quotas involving additional capital equipment were scrutinized with special care in an endeavour to fit in requirements with the production of capital goods. Attention was also given to the repercussions of changes of production in dependent industries and to the co-ordination of raw-material supplies and production plans. But the fact that the time allowed for the preparation of the Plan was short left its mark in several respects. For lack of time the estimates of raw-material supplies, in particular of those to be imported, were in many cases arbitrary, and the plans for co-ordination of the activities of the different industries were sketchy and incomplete.

The Plan as we have seen was drawn up on the assumption of a considerable increase in the efficiency of labour. It was, in fact, a feature of the Plan that output should expand on a much larger scale than the number of hands employed in industry. This cost-diminishing factor had to be considered when setting up the specific plans of individual concerns if they were to fit into the general Plan. On the other hand, while an improvement of the standard of living by levelling up wages was envisaged, wage increases were to be admitted only when output per head increased. The reduction of cost was, in principle at

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least, anticipated within the individual production and investment plans. No details were disclosed to show to what extent these tentative estimates approached reality within the various industrial branches.

The Plan published on the authority of the National Planning Department—as provided in the fundamental law on the Three-year Plan—was on its industrial side the outcome of this preparatory work. So far as the big public enterprises in mining and heavy industry were concerned, their executives were, in fact, confronted with their own sectional plans. They received a programme of production with a classification familiar to them. As for the expansion of their output, the public concerns could rely on special consideration for their raw-material needs. These materials were provided increasingly by Russia and Poland even prior to the Plan.

Light industries retained some discretion in their production in virtue of the vagueness of the schemes presented to them. It was understood, however, that the production of necessities should have priority. And special directives were given to use a definite quota of the available material for the production of articles of a certain description in the textile and the leather industries. These directives eventually crystallized in rulings on the output of utility clothes and footwear.

There was a general tendency to turn out standardized articles, and if possible of maximum tonnage or other quantitative units. In this respect there was no difference between the position of the executive of a public enterprise and the private entrepreneur. Both were under pressure to realize and if possible to surpass their quotas.

THE MECHANISM FOR ADJUSTMENT

By the decree of August 1947 the obligation was imposed on all enterprises employing more than twenty workers to submit through the competent Ministry specific plans to the National Planning Department. For the fulfilment of it, the ground had been prepared through the consultations between industry and the authorities which have been described above. The plans had to include the following: (1) the plant capacity; (2) the amount of production in 1946–7; (2) planned production specified according to the types of commodities as listed in the directives of the Planning Department; (4) planned investment. The quantity of raw materials, man-power, and equipment needed for the production and investment proposed had to be indicated.

But that was not the whole story. As from the second half

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very practical significance, in that once approved they became obligatory. Any departure from them, whether in production or in capital outlay, exposed the executives to the danger of being accused of sabotage.

No modified version of the Plan, compiled from the individual quotas submitted, was published. Two series of figures were disclosed: the preliminary forecast, and the achievements in the first Plan year. In the following table actual production is not compared with totals built up from the quotas of the individual enterprises, but with the preliminary programme promulgated on 1 August 1947.

	Preliminary Forecast	*Actual 1947–8*	*Percentage fulfilment*
Iron ore, 1,000 tons	210	258	123
Bauxite, 1,000 tons	220	400	182
Electrical engineering, value million forint	335	562	168
Bricks, million pieces	250	205	82
Leather, million forint	232	364	156
Footwear	—	—	123
Knitted wear, 1,000 kg.	3,480	1,750	50
Flour	—	—	62
Rubber goods, value million forint	80	230	288

As illustrated by the wide range of variation in the rates of fulfilment, the Plan was fluid. The forecast published in August 1947 was but a starting point. Numerous factors inducing considerable alterations were at work. When the Plan was put into operation and production in accordance with the quotas was entered upon, substantial departures from the forecast took place, and in many cases the quotas were exceeded. The increase in the output of iron ore was due to a quicker rise in labour productivity than had been expected. Ample ore supplies were reflected in the output of rolled material, entailing a revision of the programme for heavy machine industry. In the case of bauxite the possibilities of sale were, as stated officially, under-estimated. Even the steep increase in output remained within the available capacity. The level of production in electrical engineering was revised in order to raise exports. The markedly higher achievement was obtained by the introduction of a second shift, in some instances even of a third. In contrast to these extensions, brick production was less than planned. The building-material industry was to a considerable extent disorganized. Prior to the Plan its coal supplies were deficient. Deliveries of fuel became more regular under the Plan, but productivity of labour continued to be extremely low.

Developments in consumer-goods industries were highly uneven. The huge excess in rubber-goods output over the quantity planned can be explained mainly by the under-estimation of

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important for food, was not of appreciable significance as far as raw materials were concerned. Nevertheless the leakages did involve some disturbance within the planned portion of economy, especially in the sphere of labour, where the attraction exerted by the higher wages paid by the small employers restricted the supply of skilled labour for factories.

Labour Market

Individual enterprises were obliged to draw up specific manpower plans, but no central planning was established for the labour market. The planners were satisfied that growing production would automatically absorb parts of the labour reserve. They did not plan for full employment, realizing that the Three-year Plan would at the most provide employment only for a part of the labour reserve in the rural districts. Owing to the certainty that reserves were far in excess of Plan requirements, the recruiting of labour, except where skilled labour was concerned, was left in the hands of the employers, using the services of the labour exchanges for that purpose without any authoritative interference. The wages at which applicants were to be engaged had been fixed, of course, by approved collective agreements.

The increase in numbers employed was markedly slow during the first Plan year, as 'in-door' unemployment, widely spread in 1946–7, had first to be absorbed. Owing to the surplus of unskilled labour there was no need from the economic point of view for comprehensive labour organization, but steps soon had to be taken to overcome the shortage of skilled labour.

THE TARGETS—PLANNING FOR EXPANSION

As officially proclaimed the fundamental conception of the Plan was to raise production on a scale sufficient for a gradual improvement in the standard of living, and for a capital accumulation at an unprecedented rate. The initial impetus for an accelerated rhythm of economic activity given by the Plan was supported by an extension of credit, which was not necessarily inflationary in an economy with unutilized resources. The subsequent expansion of production was to be effected by a steadily enlarged capital equipment and by improved labour productivity. Industrial production was estimated at about 60 per cent of the pre-war level in 1946–7. The Plan envisaged the re-establishment of the pre-war standard of living by the end of the three-year period. In view of a steeply rising rate of net investment—from 10 to 18 per cent, against some 5 per cent in the

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185 433 inter-war period—and of reparation payments, the goal could be realized only if a level of production was attained surpassing the pre-war level; production in the third Plan year was to be almost double that of 1946–7. This bold programme for expansion was staged, notwithstanding that the absence of raw-material reserves made any adjustment in production difficult.

The Plan embodied an economic policy according to which by 1949–50 farm production would still be 5 per cent below the pre-war level, while output in mining and metallurgy would exceed that of 1938 by 34 per cent, and in manufacturing industry by 27 per cent. An increase of 64 per cent was provided for production in engineering.

PLAN ESTIMATES
(at prices of January 1947)

	1938	*1946–7*	*1947–8*	*1948–9*	*1949–50*
			In million forint		
National income	22,517	14,741	19,029	22,414	25,705
Public expenditure on goods	2,830	1,648	1,750	1,850	2,000
International commitments	—	1,397	1,199	1,470	1,684
Investment*	1,205	530	1,796	2,185	2,604
Increment of livestock	168	182	297	359	462
Value of goods available for home consumption	18,314	10,988	13,987	16,550	18,945
			Per cent of 1938		
National income	100	65·5	84·5	99·5	114·2
Value of goods available for home consumption	100	60	76·4	90·4	104·3

* 1947–8 to 1949–50 Plan investment.

Within the estimates 6,585 million were provided to finance the three years' investment programme. It was anticipated to break up total investment as follows:

	Million forint	*Percentage of total investment*
Agriculture	2,000	30·5
Mining and manufactures	1,745	26·5
Communication	1,676	25·4
Buildings, social services	1,164	17·6
Total:	6,585	100·0

At first sight it is surprising that investments planned in agriculture exceeded those for mining and industry, though the Plan was generally regarded as a programme for industrialization. But, as the farmers were the largest group in the community, the planners intended that the amounts devoted to agriculture should appear impressive. Therefore investments for the extension of industries in support of farming (tractor and fertilizer production, rural electrification, as well as rural housing and

3:Kemeny G-5 (1945-48)1954 EC1 Hungary EC1

road building—amounting altogether to 900 million forint) were scheduled as 'agricultural'.

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The programme outlined was designed to speed up reconstruction in Hungary and to give a definite direction to the development of productive power. As to the possibility of selling the increasing volume of products, the effective demand needed was to be created by the Plan itself and partly also by developments not planned in advance. Purchasing power for absorbing consumer goods was bound to be expanded by growing employment and by the adjustment of real wages to the rising productivity of labour. Regarding capital goods, it was the very essence of the Plan to secure means for financing investment on the scale provided and even beyond it.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

DISPROPORTION BETWEEN INCOMES AND SUPPLIES OF CONSUMER GOODS

465 In view of prevailing shortages an attempt was made as early as in August 1946 for planning in a rudimentary form to adjust money incomes to the amount of consumer goods available. It was this concept that caused the authorities to suggest wages in industry averaging 50 to 55 per cent of the pre-war level; for clerical staff the relation to pre-war earnings was to be fixed according to the amount of the salary between 30 and 55 per cent, and for civil servants at an average of 33 per cent. Intentions to stabilize wages at the rates quoted were, however, frustrated by soaring food prices. A race between wages and prices started. In July 1947 average hourly wages in manufactures exceeded by almost 50 per cent the level of the previous October. Yet results for the wage-earners were poor in terms of real earnings. It could hardly be expected otherwise in view of a national production of about two-thirds of the pre-war volume. A few figures substantiate the extent to which, on the eve of economic planning, consumption (in quantities) lagged behind that of 1938.

	Consumption in 1946–7 1938 = 100
Total food (in terms of calories)	66
Milk	50
Sugar	94
Eggs	80
Cotton goods	63
Woollen goods	32
Domestic fuel:	
Coal	23
Wood	37

[185] The idea of equating consumers' aggregate income with supplies in consumer goods was incorporated in the Plan. The intention was to raise wages and salaries step by step with the increasing output and the resulting increase in the flow of consumer goods. The idea of the planners was to pass into planned economy with a wage level unchanged (i.e. at the level of July 1947) and to consider a revision of wages after the lapse of six months, according to the position then attained. But the Government's control over wages was not tight enough. The trade unions insisted upon a general wage increase of 10 per cent as from 1 August 1947 and the Government, taken by surprise, was unable to refuse confirmation. Thus the Plan started with inflated wage rates and in the absence of a change in the basic conditions the race between prices and wages continued. As stated by the National Planning Department, average earnings per hour in manufactures amounted to 2·71 forint in 1947–8

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

controlled by them into a unit; they had to watch the fulfilment of the approved plans, and were to make provision, with the consent of the National Planning Department, for whatever changes proved necessary in any of the individual plans or in the sectional plan of the branch.

Moved by the considerations referred to, the planners decided that the capital programme projected for the period August 1947 to July 1950 should be carried out by the end of 1949. Accordingly, production was to be speeded up so as to attain the level originally planned for the end of a three years' period within twenty-nine months. The decision required a new subdivision of the 'Three-year' Plan in place of the three twelve-month periods. It was found convenient to abridge the second part into the five-month terms of August-December 1948, while the third was to run, like the first, for twelve months, from January to December 1949.

INDUSTRIAL OUTPUT AND EMPLOYMENT

It was intended that industrial production should be raised in the closing Plan period to double that of 1946–7. In the first year a 50 per cent increase was achieved. During this first phase of expanding production the enterprises were to draw on their 'in-door' reserves of man-power. Their capital investments were concentrated on the elimination of bottlenecks, so that disproportionate increases of production were made possible. In the following period no special factors of that kind operated. Additional labour was to be employed, roughly in proportion to the stepping up of production. Opportunities for setting whole workshops in motion by replacing some damaged parts at small cost were exhausted. The mainstays of further development, the increase of the labour force and massive investment, were bound to be coupled with more searching methods of organization and factory management if the objectives of the Plan, including the rise in productivity, were to be realized.

The progress of industrial production is indicated by the index numbers computed by the National Planning Department.

INDUSTRIAL OUTPUT (PER CENT)

	1938	*1946–7*	*1947–8*	*1948 Aug.-Dec.*	*1949*
Actual	100	60	92	100	135
Planned	—	—	88	—	127

After the 50 per cent rise during the first Plan year industrial production appears to have been raised again by nearly 50 per cent within a seventeen-month period. In the cases of mining

3:Kemeny G-5 (1945-48)1957 EC1 Hungary EC1

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COMPARISON OF NOTE CIRCULATION

in million forint

	1947	*1948*	*1949*
June	1,468	2,070	3,007
September	1,834	2,506	3,175
October	1,868	2,585	3,052
November	1,829	2,543	—
December	1,992	2,816	2,629

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Conspicuous changes were brought about by the Three-year Plan in the Hungarian economy. In the first phase the unfolding of the Plan was gradual. An ambitious capital programme was carried out to lay the foundations for later expansion. Employment in industry was increasing slowly, while a struggle against disabling food conditions was going on. Shortage of food played havoc with price control and wage policy.

During the second phase the capital programme was pushed forward at an accelerated pace. In industrial production the rate of increase, though considerable, was slower than at the initial stage. Expansion of productive activity was such that industrial unemployment was eliminated, and part of the unutilized man-power in agriculture was absorbed. The building trade, which had been very depressed up to the end of 1948, was included in the expansion. Its revived activities were in part directed to supporting the rearmament programme, and in part anticipated the requirements of the Five-year Plan to be started in January 1950.

Owing to more favourable crops, food conditions became normal and price control more efficient. But productivity in industry did not improve to the extent hoped for. In spite of all efforts to produce results by Stachanovite devices, the problem of reducing costs in manufacturing industry was not mastered.

3:Kemeny G-5 (1945-48)1953 EC1 Hungary EC1

CHAPTER VIII

FUNDAMENTALS OF PLAN POLICY

INVESTMENT AND CONSUMPTION

As declared in the first clause of the Act on the Introduction of Economic Planning, the general objectives of the Plan were: 185

'For the purpose of accelerating the economic and cultural progress and of consolidating the democratic order in Hungary, and in order to raise the standard of living of the population, a Three-year Economic Plan . . . shall be established, specifying and ensuring an increase of productive power and its economic utilization and co-ordinating the various branches of production in the general interest of the nation.'

Whereas the primary objective of the Plan was to increase capital accumulation, it set out at the same time to direct production and employment, productivity, and costs, and, by regulating wages and prices, to determine the level of consumption. In the outcome, the results attained by the Plan exceeded or fell short of its objectives in varying degrees. In estimating the results, account should obviously be taken of the recovery which might in any case have been brought about by the free working of economic forces without any central planning. Productivity had been gravely impeded by shortages of materials, by the dislocation ensuing upon invasion, defeat, and monetary collapse, and by under-nourishment of the working people. The monetary stabilization in 1946 and the revival of imports must have gone far towards removing these obstacles.

However that may be, the Plan did give a definite shape to development. By forcing up the rate of capital accumulation, it may have actually retarded the revival of consumption. In order to pass a fair judgement on the potentialities of recovery without the specific driving force inherent in the Plan, one needs to bear in mind the inertia displayed towards fundamental issues in pre-war Hungary, be it concerned with agriculture or with unemployment. Had this spirit, hidebound as it was in financial orthodoxy, prevailed, an agricultural development scheme similar in magnitude to that included in the Plan could hardly have materialized. It was thus a specific feature of the Plan to impart simultaneously an impulse to the production of capital goods and consumer goods at least in so far as food was con-

3:Kemeny G-5 (1945-48)195 EC1 Hungary EC1

cerned. One reservation, however, appears to be justified. The stress placed on the development of heavy industry presumably hampered the expansion of light industry on such a scale as would have been attainable without the compulsion exerted by the Plan.

THE RATE OF CAPITAL ACCUMULATION

There is a peculiar dynamic quality inherent in the economic plans in Eastern Europe. All of them are intent on imposing a pace of development which implies strenuous present efforts for future results. An increased capital equipment has to be created to attain increased productivity. As foreign capital aid was excluded, additional equipment had to be produced from domestic resources, and to this end all available reserves had to be mobilized. It was this spirit of austerity, calling for individual sacrifice, which underlay the decision to devote 10 per cent or more of the national income to a capital programme, notwithstanding prevalent shortages.[1] This decision doubled the rate of net investment compared with pre-war, while a considerably reduced national income was also burdened with reparations to the amount of 6 per cent.

The grim determination of the planners to speed up reconstruction and the development of productive power placed the responsibility for the adoption of measures to secure an adequate capital supply on the central authorities. Individuals could not conceivably be allowed to decide upon the rate of accumulation according to their own preferences for future as compared with present goods. Compulsory saving became imperative, and it was effected mainly through taxation. From the outset all possible sources of revenue were strained to the utmost in order to produce a surplus large enough to finance the capital programme. The special capital levy proved a failure. It provided approximately 200 million in the first Plan year towards total requirements amounting to 2,500 million forint. The principal part of the funds needed was, in fact, raised from the general revenue. Consequent on the necessity to secure the means wherever they were available, an intricate multiple system of taxation was maintained. Though direct taxes with progressive rates contributed a considerable part of the revenue, the mainstay of Government finance was the purchase tax, together with other duties and monopolies falling on consumption.

A system of compulsory savings through taxation does not exclude other devices for promoting savings. Spending can be

[1] This relates to the first Plan year. In 1949 net investment climbed up to 18 per cent.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

were taken to ensure further rationalization in industry. Much attention was paid to standardizing industrial production. An institute was established under the auspices of which suggestions for reducing the manufacturing of tools to a few standardized types were soon carried into practice. Similar steps followed in textiles and also in other industries. The importance attached to the problem of rationalization was underlined by the vast propaganda encouraging workers' innovations. This widespread action presumably scored success even if a good deal be abated from the official tribute paid to it.

Important steps towards rationalization were taken following the transfer of manufacturing industry to public ownership. In several industries, first of all in engineering, specialization of plants has been carried out. In concentrating the output of tractors, of lorries, of certain tools and implements, the former dispersion of production among a number of factories was eliminated, and the way opened for more economic methods of production.

THE DRIVE FOR INCREASED PRODUCTIVITY

A substantial increase in productivity was one of the fundamental conditions of the fulfilment of the Plan. For the third Plan period the planners envisaged an average productivity of labour in mining and manufacture 50 per cent above the level of 1946–7. As pointed out above (p. 65), they hoped to double the volume of production with a labour force raised by one-third only. Both enlarged equipment and improved working methods were to play their part in attaining the result.

The objective appeared bold at first sight. Yet in 1946–7, with an average productivity of labour in industry between 65 and 70 per cent of that before the war, an improvement by 50 per cent did not imply more than a restoration of the former standard. Nevertheless the obstacles could not be altogether overcome. Half the distance was covered during the first Plan year. According to statements already referred to, in 1947–8 the productivity of labour was raised by 25 per cent in manufacturing industries and by 21 per cent in mining, compared with the average of the previous year.

In appreciating these achievements, the background has to be considered. They represent a second step towards higher productivity. The first had been taken in 1946–7 consequent upon the monetary reform, though inadequate raw-material supplies impeded a steady development of industrial production in that year. But the numbers in employment could not be

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

433 461 level by about 50 per cent.[1] It had originally been caused by unsatisfactory labour discipline, but a further deterioration was brought about by the speeding up which the labour contests induced. In a number of cases the increase of waste was an unmistakable sign of sabotage. Thus the problem of waste became one of national importance, and the necessity to deal with it was stressed again and again in the propaganda for raising productivity.

433 The intense efforts concentrated on this issue show that the question of productivity was felt to be one of the vulnerable points in the execution of the Plan.

MAN-POWER POLICY

464 [185] The Three-year Plan was not designed to bring about full utilization of resources. Its natural effect was to raise the labour force in industry, but it did not look forward to the absorption of the entire available man-power reserves. It was not calculated to abolish altogether the chronic state of under-employment, which had been an outstanding characteristic of economic and social conditions in pre-war Hungary. Expanding industry was allowed to draw upon the man-power reserve through the mechanism of demand, as in the past. During the years between the two wars rural labour reserves were steadily attracted by industrialization, but the process was very slow in reducing the prevailing under-employment. Under the Plan the process of absorption was considerably speeded up.

In the absence of any comprehensive statistics on unemployment in Hungary, no official statement is available as to the size of the man-power reserve. The trade unions registered unemployment in industry, but there were no records regarding the main contingent of idle man-power, i.e. in agriculture.[2]

The only systematic approach to an estimate of agricultural under-employment is related to the year 1930.[3] In carrying out the inquiry, the amount of work required for the different

[1] Information leaked out on the unusually high rate of waste in some industries during the first half of 1949. In a foundry in Budapest, which had previously achieved outstanding performances, the waste was reported to have surpassed 6 and during one month even 9 per cent, compared with a pre-war figure of 2-3 per cent. In the whole of the weaving industry the waste fluctuated between 3 and 3·6 per cent; it attained in some of the factories 6 and, in exceptional cases, even 10 per cent.

[2] Had there been an unemployment insurance scheme, the numbers of those who qualified for benefit would have been recorded, but even so not the numbers of peasants whose efforts were incompletely occupied.

[3] Dr M. Matolcsy, *A mezögazdasági munkanélküliség Magyarországon* (Unemployment in Hungarian Agriculture, Budapest, Hungarian Institute for Economic Research, 1933).

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

balanced progress of all components of the Plan. It is under these conditions that the realization of programmes of production would provide a genuine test for successful planning.

In the course of this study the question has been repeatedly raised what part of the expansion recorded is to be credited to the impetus given by the Plan. It is evident that to a certain, though unascertainable, extent a resurgence of economic forces, supported by a revival of foreign trade and improved nutrition, would have almost automatically materialized. But the Plan reinforced the upward trend by maintaining and steadily extending effective demand. In doing this the Plan imparted a specific turn to developments in Hungary by giving high priority to the production of capital goods. This is just the point open to criticism. Was it not the pace of investment dictated by the Plan that prevented the attainment of a level of consumption adequate to the efforts made? This argument, of course, has some substance, though a mechanical interpretation of the inter-connexion of investment and consumption level is to be avoided. It should not be forgotten that, under the conditions prevailing in post-war Hungary, considerable capital expenditure for reconstruction and re-equipment was a prerequisite for extending production. Given the privation of the early post-war years and the limited propensity to save in Hungary, it would have been futile, even with foreign aid, to expect adequate resources for investment from efforts on individualistic lines. This consideration constitutes a weighty argument for the planning of investment and reconstruction, though not on precisely the model of the Hungarian Three-year Plan.

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[For description and analysis of Hungarian economic planning since 1938, see category 116, pp. 1-75.]

185 454 No details are given concerning capacity, except in a few isolated cases. On the basis of eyewitness accounts, some of the reconstructed works, notably the Ganz electrical engineering plant in Budapest, greatly exceeded the old plant in capacity.

Transport and Communications

185 481 In transport and communications, the aim of the plan was the rehabilitation of the transport system which suffered very heavy damage in the war. Costs were budgeted at 676 million forints. The capacity of the transport system, about 75 percent of prewar when the plan was launched, was to reach, and in some cases even exceed, the prewar capacity.

The main items listed in the blueprint were the following:

[496] Railways: the reconditioning of the principal railway lines; some extension of the double track system; the reconstruction of the single, electrified line (Budapest-Vienna); the starting of electrification of another line (Budapest-Hatvan, connecting an iron and coal district with Budapest); the reconstruction of five of the principal and all the smaller bridges which had been destroyed; and the rebuilding of the railway yards and stations damaged in the war.

[504] Shipping: the refloating and reconditioning of river boats, improving harbor installations, enlargement of the central harbor in Csepel, and the construction of two canals (Sio and Danube-Theiss).

411 Roads: completion of the repairs of war-damaged roads, that is, the reconstruction of about 20 percent of the arterial highways and about 40 percent of the primary and secondary roads; the construction of 225 km. of new arterial highways and 1,400 km. of primary and secondary roads; the rebuilding of most of the destroyed highway bridges.

[509] Air transport: construction near Budapest of a large airfield meeting modern requirements and capable of receiving the largest planes now in use.[34]

[206] Telephone, telegraph, and wireless communications: the rehabilitation of the still deficient telephone and telegraph systems; the reconstruction of a 135 KW transmitting station (Budapest); the construction of another 135 KW transmitting station (Szolnok); and a third short-wave transmitting station of unknown capacity (Diosd).

34. Work on the airfield in Feribegy near Budapest was started during the war, but it was badly damaged before completion. It was used as a Russian military airfield after the war.

3 [The Three Year Plan of 1947-1949—Analysis]

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

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473 duction was thus available for the armed forces or for export to Germany.

A new operating company, the Hungarian-American Oil Company (MAORT), a subsidiary of Eurogasco, obtained a forty-year concession soon after the Lispe discovery under the same arrangements as had been made with Eurogasco whereby the royalties to be paid to the government were fixed at 15 percent of the crude oil and 12 percent of the marketed natural gas production. MAORT achieved such successful results that in less than six years it became Hungary's third largest industrial enterprise and, considering the indirect effects, probably the largest single corporate contributor to the national income.

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652 During the late thirties the economic aspects of agriculture improved due to ever increasing agricultural exports to Germany under the Hungarian-German trade agreements, even though protection of industry remained the official policy of the government.

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131 In 1938 Hungary began to rearm. With Axis support parts of the territories lost in 1920 were recovered from Czechoslovakia in 1938 and 1939, from Romania in 1940, and from Yugoslavia in 1941. As a result, the country's area increased from 93,073 square kilometers in 1938 to 170,869 square kilometers in 1941 with a corresponding increase in population from less than 9 million to 14.6 million. In 1941 Hungary entered World War II on the German side.

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241 Rearmament, the recovery of about half of the pre-Trianon territory, and finally war gave a tremendous impetus to the economy. Industrial employment rose from 289,000 in 1938 to 392,000 in 1943 (excluding the recovered areas), and, for the first time, the value of the industrial output surpassed the value of agricultural production.

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185 Government controls gradually increased. The allocation of raw materials and the rationing of food and gasoline were introduced, and for the first time in Hungarian history the government embarked on large-scale economic planning.

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The "Billion Pengő Plan," officially known as the Five-Year Plan of 1938, was primarily a result of military considerations. Originally calling for an investment of one billion pengős, it was repeatedly revised upward until it reached 4.5 billion by 1943. Roughly three-fifths of the total funds were devoted to rearmament and to the heavy industries, while transportation and agriculture received one-fifth each. The plan was financed by a progressive capital levy and by government borrowing. It was carried out through the existing ministries by simply expanding their activities. A Ten-Year Plan for Agriculture calling for the investment of 100 million pengős annually was launched in 1942, but wartime dislocations prevented its realization.

By the spring of 1944 the power, aluminum, chemical, and oil industries had been considerably enlarged. The total Hungarian refining capacity was estimated as 3.5 million barrels annually before the territorial losses of 1920; as 1.5 million barrels in 1920; and was 3.2 million barrels in 1940. In contrast to this relatively modest development, by the spring of 1944, the total capacity had increased to more than 10 million barrels, only 710,000 of which were from refineries located in the temporarily recovered areas. The new plants at Pét and Szőny, which were built by the government within the framework of the Five-Year Plan of 1938, had a combined capacity of 3.6 million barrels; these plants alone considerably exceeded the total 1940 capacity.

During World War II numerous concessions were granted to German and Italian as well as domestic oil companies in the areas east of the Danube and in the recovered areas. These groups carried out extensive geophysical surveying and a few test wells were drilled. However, it was only in the Mura district, close to the Hungarian Zala fields that commercial discoveries were made. Small-scale production began in 1943. Two years later, in 1945, Yugoslavia recovered the district once more.

At the end of World War II the economy was once more at a standstill. In 1945 agricultural production did not reach one half of prewar production, while industrial output was only a fraction of that of 1938. Of 4,341 factories

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727 433 [434] only 186 were working at over 70 percent of prewar capacity, while 1,109, or over 25 percent, were completely out of operation. It is estimated that even in 1946/47 the national income was only 65 percent that of 1938 and less than 50 percent that of 1943, the peak war year. The Hungarian economy as a whole, and especially the industrial sector, heavily concentrated in Budapest, was among those most seriously damaged in Europe.

[458] The Soviet occupation, heavy reparations payments, general political uncertainty, and a runaway inflation in 1946 made the task of reconstruction even more difficult.

728 471 648 According to the Potsdam agreement all Axis property, even that which had been forcibly taken over by the Germans during the war was handed over to the Soviet Union. Subsequently, new Soviet-Hungarian companies began to mushroom in manufacturing as well as in transportation, and it was at this time that the Hungarian-Soviet Oil Company, Maszovol, was organized.

727 315 [471] While the Zala fields had escaped major war damage they suffered by the wasteful practices engaged in under pressure from German and later Soviet military authorities (see Table VII).[1] After prolonged negotiations the MAORT properties (all areas west of the Danube) were returned to the American owners in 1946.

727 178 471 A land reform and the nationalization of industries "with monopolistic character" such as steel and coal were swiftly carried out after the war.

[565] Land reform, nationalization without compensation, and the inflation of 1946 largely destroyed the propertied classes, and in the chaotic conditions a downward leveling also affected the skilled workers.

[642] 727 185 [665] By mid-1947 the communists within the coalition government had virtually eliminated any possibility for non-communist government plans, and for all practical economic purposes the communists were in control. Dictated by the realities of the prevailing postwar conditions, certain

1/ [Cf. page 88, category 116 -- Analyst]

12: Free Europe Committee U-4 (no date) 1954 EC1 Hungary EC1

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basic factors would have made some postwar government planning imperative under any government. There was the urgency for the reconstruction of the badly damaged and dislocated economy; the required prompt delivery of large quantities of reparations goods to the Soviet Union, Yugoslavia, and Czechoslovakia under the terms of the peace treaty; radical economic changes due to the elimination of Germany as a trade partner and the emergence of the Soviet-Hungarian mixed companies; and the industrialization of the country as already envisaged by the prewar governments.

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The communists, of course, desired and proposed state planning along their own lines, to fulfill the above conditions, their ultimate political and economic objectives being the transformation of Hungary into a "socialist state on its way to communism" and the integration of the Hungarian economy into that of Soviet Russia. Having nationalized the basic industries, having eliminated the domestic "capitalist" class, having destroyed all Western confidence in Hungary's credit, and having rejected participation in the Marshall Plan, the Hungarian government had to embark on large-scale planning of its own.

The Three-Year Plan of 1947

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The relative position of the Hungarian oil industry can only be evaluated in context with the over-all economic picture, which was drastically affected by postwar state plans. Accordingly, while the oil industry was not of paramount importance, and while much pertinent and accurate data relating to the oil segment of the economy is not available, the main features, objectives and achievements of the Three-Year Plan must still be outlined.

The Three-Year Plan of 1947 was the result of plans submitted to Parliament in the fall of 1946 and in early 1947. Formally accepted in July and launched in August of 1947, it aimed at raising the national income 14 percent above prewar but still below that of 1943. It

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185 was at once a reconstruction, production, and investment program, with emphasis on the first, those investments that would have an immediate effect on production and would eliminate bottlenecks being given priority.

[447] A National Planning Office was set up to detail the plan, which had been approved only in outline by the party [652] leadership. The Investment Bank and the Bank of Issue were in charge of financing operations. All activities were supervised by the Supreme Economic Council and by the Cabinet.

652 454 Of the investment of 6.6 billion forints called for by the plan (1 forint was equal[1] 8.52 United States cents at the official rate), agriculture was to receive 2.0; mining and manufacturing, 1.7; transport, 1.7; and building, 1.2 billion forints. Included under "agriculture" were such items as tractor and fertilizer plants, road building, rural electrification, irrigation projects, and the establishment of tractor stations. Sixty-seven percent of the total was to be met from treasury funds (taxes and loans), 18 percent by local authorities and government agencies, and the balance by cooperatives (4 percent), remaining private sources (9 percent), and Soviet-Hungarian companies (2 percent).

185 After a very promising start the plan was speeded up and it was concluded by 1 January 1950 instead of 1 August of the same year.

185 315 433 Oil was among the few basic commodities that fell considerably short of the goals. The plan called for production of 540,000 tons in 1947/48 and for 660,000 tons in 1949/50 which was later moved up to 1949 under the speed-up program. In contrast with these high expectations the actual output was only 475,000 tons (3,600,000 barrels) in 1948 and a little below 500,000 tons (3,800,000 barrels) in 1949. Thus, only 75 percent of the plan was fulfilled in oil production, and the 1949 output remained at but 59 percent of the wartime peak of 1943.

000 While mechanisation in agriculture progressed, 211

[1] [sic.. Analyst]

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While mechanization in agriculture progressed, 211 241
new tractor stations being set up and 4,500 tractors added 407
to an existing stock of 12,500, the plan fell short of its goal 433
in the agricultural sector, with the exception of livestock 185
which reached the prewar level. Crop production in 1949
reached only 77 percent of prewar, a near disaster.

In mining and metallurgy the plan aimed at 38 per- 316
cent above the prewar level. It called for an output valued 327
at 1.5 billion forints compared with 1.2 billion in 1938 and 328
an estimated 2.0 billion in 1943/44. In 1949 Hungary pro- 433
duced 11,844,000 tons of coal and lignite, 293,000 tons of iron ore, 428,000 tons of pig iron, 850,000 tons of steel, 561,000 tons of bauxite, 17,000 tons of alumimum, 45,000 tons of manganese ore concentrates, and smaller amounts of copper and lead ores. With the exception of oil and a few other smaller items the plan was reached or surpassed.

The output of power ran about 20 percent ahead of 377
the plan and reached 2.36 billion kilowatt-hours in 1949 433
compared with 1.4 and 2.1 billion kilowatt-hours in 1938 and 1943 respectively.

The gross output of manufacturing, excluding elec- 185
tricity, was to be more than doubled to a level of 16.5 bil- 433
lion forints in 1949. While it was officially claimed that the plan was overfulfilled by 21 percent, which would put the value of the 1949 manufacturing output (including electricity) at 20.8 billion forints, this claim is definitely too high and should be revised downward, to perhaps 14 billion forints or about 1.2 billion dollars.

With the exception of the leather industry it was claimed that the output of all others exceeded the 1938 level by margins ranging from 12 percent in textiles to 112 percent in engineering in 1949. Nothing was said of the refining industry. A drastic shift to investment materials [454] at the expense of consumer goods is apparent.

Prior to the end of World War II Hungarian indus- 382
try had used relatively large quantities of fuel oil. Reconstruction and expansion during the plan period suggest

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

382 that industrial demand for oil reached at least the wartime peak, and very probably exceeded it.

●185 382 497 In transport the plan called for the restoration of prewar capacity with a few improvements added and imposed no insatiable demands on the oil industry. No dieselization of locomotives had been carried out before the war, and none was scheduled by the plan. In 1948 the Hungarian National Railroads used only 1,740 tons of oil, compared with 1,584,000 tons of coal and 33.24 million kilowatt-hours of electric energy.

398 In the final plan report it was mentioned that there were "fewer" passenger cars in 1949 than the 18,900 listed in 1938. The number of buses, however, increased 50 percent from 700 in 1938 to presumably 1,050 in 1949. According to similar calculations, there were 9,500 trucks in 1949 compared with 3,800 in 1938.

362 374 As no appreciable quantities of oil were used for the heating of private homes the 120,000 cottages built in rural areas during the plan period had no effect on oil consumption; and the total number of new apartments built in two and a half years in urban areas was only 5,200 compared with the prewar average of 10,000 annually.

464 [316] Employment in mining and manufacturing (excluding handicraft) rose from 330,000 in 1938 to 443,000 by the end of 1949 but was still below the 1943 level of 470,000. Of the 1949 figure mining accounted for about 75,000 as [489] compared with 49,000 in 1938. There were very marked [331] increases in the transportation and building industries, each employing about 120,000 persons.

241 Despite the impressive increase in industrial strength in the years 1938-1949, Hungary remained an essentially agrarian country. Agriculture remained by far the most important single industry, employing an estimated 1,960,000 persons, or 46.4 percent of the working population.

000 Operations in the oil fields had been little disturbed

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433 which was rated at 1,300,000 tons (10 million barrels) in 1944 plummeted to less than 100,000 tons (760,000 barrels) one year later. Reconstruction was slow at first, but gained momentum. Total existing capacity was estimated as 824,000 tons (6.36 million barrels) in 1947; 1,200,000 tons (9.1 million barrels) in 1948; and 1,600,000 tons (12.2 million barrels) in 1949. It should be noted that most Hungarian refineries built in the 1930's were equipped only for fractional distillation, and this condition remained virtually unchanged in 1947, as the more recently built large and modern plants were the ones most severely damaged during the war. It would appear that the planners counted on both increasing domestic production and large-scale imports of Romanian crude, but these assumptions failed to materialize. As a result, until at least 1948 the refineries operated at less than 50 percent of theoretical capacity. (See Table V.)[A] There are numerous reports stating that, beginning in 1949, large quantities of Austrian crude were being refined in Hungary.

185 The Three-Year Plan as a whole was ambitious but not unrealistic. It seems to have fulfilled its aim in reaching 110 to 120 percent of the 1938 production, an achievement due primarily to a forced production drive rather than to the government's investment program, the results of which could not yet be felt.

454 The investment program itself concentrated on the heavy industries, neglecting consumer goods production and agriculture.

Actual investments, adjusted for inflation, amounted to 8.3 billion forints, about 700 million dollars and exceeded the plan by 25 percent. In 1949 investment absorbed 18.7 percent of the national income to which an additional 5.3 percent must be added for inventory increase. Thus the total is 24 percent, an astonishingly high figure.

434 The true national income (reduced from exaggerated propaganda claims) appears to have been 17.4 billion forints in 1947/48 or 81 percent of prewar, and 25.5 billion forints (2.17 billion dollars) or 118 percent of prewar in 1949. This was still about 15 percent below the 1948 figure.

[A] [Cf. p. 37, category 116 -- Analyst]

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000 1949. This was still about 15 percent below the 1943 figure.

511 If adjustments are made for inflation, heavy investments, and inventory increases—not to mention such unknown but very important negative factors as rearmament and unfavorable terms of trade with the Soviet Union—it is safe to state that the Hungarian standard of living in 1949 remained considerably below the 1938 level, not withstanding official claims to the contrary, and that goods actually available to consumers remained well below the prewar level.

185 471 The plan was "overfulfilled" in its political aspects. The nationalized sector reached 84 percent in transportation, 78 percent in industry, and 59 percent in distribution. In agriculture all forests became state property and the basis of the kolkhoz system was established.

The Five-Year Plan of 1950

185 As the speeded-up Three-Year Plan was nearing completion, late in 1949, the proposed outlines of a new plan were published. Originally 35 to 37 billion forints were mentioned, but by the time the plan was passed by Parliament the figures had been revised upward to 50.9 billion forints. The Five-Year Plan of 1950, as the second communist plan was officially designated, was overhauled once more in May 1951 to conform more closely to the Five-Year Plan of the Soviet Union and to the various plans of the neighboring satellite nations.

185 454 This revision upped the total investment to 85 billion forints. These repeated increases in the total volume of investment were partly due to a progressing inflation, and partly to the increases actually needed for the fulfillment of the revised plan. According to calculations made by the United Nations Economic Commission for Europe, total investment (in constant January 1947 forints) amounted to 2 billion or 10.6 percent of the national income in 1947/48; 4.47 billion or 17.9 percent in 1949;

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185 454 6 billion or 21 percent in 19[illegible] and 8.75 billion or 24.5 percent in 1951. To these investment figures very considerable inventory increases must be added, without which the constantly accelerating expansion program would be impossible. Inventory increases absorbed an additional 4 to 5 percent of the national income or about 0.85 billion forints in 1947/48 and perhaps as much as 1.7 billion in 1951, also figured in constant January 1947 forints. Thus, investments and inventory increases amounted to 10.4 billion forints (roughly 886 million dollars) and nearly) percent of the national income in 1951 compared with only 2.85 billion forints (about 242 million dollars) and 15 percent of the national income in 1947/48.

Revisions of the plan also gave an ever increasing share of investments to heavy industries at the expense of consumer goods industries and of agriculture. The share of heavy industry in total investments increased from 18.6 percent in 1938 to 32 percent in 1947/48, 40.5 percent in 1950 and 48 percent in 1951; and to this must be added hidden investments listed for propaganda purposes as housing, and other indirect expenditures, such as the expansion of the transportation system. By contrast the consumer goods industry's share in new investments declined constantly from 9.2 percent in 1938 to 3.6 percent in 1951.

433 Most actual production data is not available, or is highly controversial. Output data for 1952 claimed or calculated from officially released percentage increase figures are as follows: coal "more than" 18 million tons, steel 1.4 million tons, electric energy 3.7 billion kilowatt-hours. The 1954 production goals call for 27.5 million tons of coal (mostly lignite), 2.2 million tons of steel, and 6.05 billion kilowatt-hours of electric energy.

315 382 433 Nothing was said in the plans about the crude oil or the refining industries beyond general statements to the effect that they will be greatly expanded.

654 315 It appears that after the dismal failure to reach the crude production targets of the Three-Year Plan, long-range plans were drawn up only in terms of explora-

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held operations at the new fields below normal capacity. 315 433

Taking the 1951 figure of 475,000 tons, taking Rákosi's statement at face value, and applying it to the whole year rather than only to the first eleven months, a 1952 production figure of 562,000 tons is indicated. In the light of the above discussion this figure is well within the realm of possibility, and with some caution, it can be accepted as correct.

Planned Production

315 185

The Hungarian Three-Year Plan announced in 1947 called for the production of 540,000 tons (4,104,000 barrels) of oil in 1947/48; 600,000 tons (4,560,000 barrels) in 1948/49; and 660,000 tons (5,016,000 barrels) in 1949/50. In 1948 the plan was speeded up to reach the 1949/50 target by the end of 1949. These targets were not reached and only 490,000 tons (3,724,000 barrels) were produced in 1949.

Late in 1949 the Five-Year Plan for 1950-1955 was announced. Its oil goals were not made public. However, information leaking from Hungary indicated that the 1952 target was 500,000 tons (3,780,000 barrels) and a 1953 target of 575,000 tons (4,340,000 barrels) was also given. These are much more modest than the Three-Year Plan goals. Either they are incorrect or the planners have lowered their sights.

It was officially announced on 15 December 1952 that crude oil production in 1953 is to be 25 percent over 1952, which in turn ran 18.4 percent over 1951 during the first eleven months. Therefore, depending on whether the 1951 production was 450,000 tons, the lowest estimate, or 500,000 tons, the highest estimate, the 1952 production must have been between 533,000 and 592,000 tons and the 1953 target is 25 percent over this, namely somewhere between 666,000 and 740,000 tons. In this study we accepted 475,000 tons as the 1951 figure which gives 562,400 tons for 1952 and a target of 693,000 tons for 1953. It is apparent that the production targets have been revised both upward and downward several times.

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By 1947 capacity recovered to approximately 830,000 tons (6,300,000 barrels) and it was somewhat optimistically given as 100,000 tons monthly or 1,200,000 tons (9,100,000 barrels) annually in early 1948.

[439]

The relatively rapidly restored refining capacity, however, remained largely unused because of Hungary's inability to import Romanian crude, which went directly to the Soviet Union. Continued enforced crude exports from a diminishing domestic production further reduced the crude supplies available to the refineries. Consequently the refineries operated at only 30 to 50 percent of rated capacity in the 1946-1948 period.

[185]

If we consider that scarce building material and skilled manpower were devoted to reconstruction of the refineries, which then were left largely unused, it becomes apparent that rather gross misplanning took place in this sector of the Hungarian economy. It is evident that the postwar planners greatly overestimated the prospective future domestic crude production and expected large additional crude imports, instead of which their Soviet economic superiors forced them to export crude.

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Despite its relatively large capacity, the Hungarian refining industry was technically outdated even before the war. The largest, newest, and most modern plants, mainly built within the framework of the Five-Year Plan of 1938, were the ones most thoroughly destroyed during the war. These plants and the more complicated parts of the older plants were the ones last rebuilt or not rebuilt at all. A close study of the refinery survey given above will reveal that as of the end of 1947 the Hungarian refining industry was still quite inferior from a technical point of view. With the exception of a small cracking unit at the Pét plant none of the installations were able to change the molecular composition of the hydrocarbons they processed. Nor were they able to produce the great variety of high grade petroleum products now manufactured in the United States or Western Europe. In fact, they were limited to simple fractional distillation and little else.

161 This trend ↑ was aggravated by the fact
458 that Hungary was such a densely populated state. The
241 density of her population amounted to almost 100 people per square kilometre. Due to the low agricultural prices prevailing generally in the world, to the keen foreign competition and to her dependence upon the exportation of raw products it was almost impossible adequately to maintain the agrarian population by the cultivation of the soil.

728 While her old Austro-Hungarian market of 58 million
439 people was reduced to a market of 7·5 million, she was
652 burdened in addition with large foreign debts which could only be paid by agricultural exports. Owing to political considerations, the surrounding countries, instead of absorbing the Hungarian surplus products, boycotted her during the early post-war years. Added to this, the economic and other restrictions of the peace treaty made it impossible for Hungary to pursue an independent economic policy serving the true needs of the country. Not until eight years after the end of the first world war was the Government able to introduce an economic policy (industrialization, protective tariff system etc.) which could meet the challenge of the density of population and prevailing unemployment.

728 The difficulties of the post-war years were aggravated
464 by the existence within her borders of hundreds of thousands of refugees from former Hungarian territory. Our educated classes had grown numerically so great that it was practically impossible to find places for everyone in
652 the administration and economic systems. Millions had
185 to be spent on measures serving solely charitable purposes out of the proceeds of production and out of greatly decreased state receipts, which fell off as a result of the effects of the war. Therefore, for the first few years, no

↑ [i.e., a reversion to more primitive conditions -- Analyst]

planned social policy of bolder conception and projecting into the future could be instituted.

Social progress was obstructed also by other difficulties. The Government of Hungary consistently endeavoured to raise the living standards of the people. Several circumstances, beyond the control of political leadership, occasionally thwarted such efforts. When the period marked by the aforementioned economic boycott came to an end, several waves of depression swept over Europe, and by these Hungary was always seriously affected.

The liquidation of the post-war inflation was done under the financial supervision of the League of Nations, which meant that we did not enjoy full financial sovereignty. The same thing took place a second time after 1931 when the Central European economic and financial credit crisis occasioned new control. In spite of the exceptionally adverse conditions Hungary did not halt on her way to social advancement, but from the beginning the interests of social welfare constituted the key-note of her efforts to harmonize her economic and political life. In the enactment of all laws in the economic and financial sphere, social problems were given foremost consideration at all times during the past twenty years.

The march of social advancement was retarded at intervals by the world-wide depression, and therefore social conditions in Hungary could not progress all along the line as rapidly as was desired by the Government. Nevertheless the achievements have been great. In several respects, as we shall see, the social reforms were far in advance of those undertaken by larger and more wealthy nations, while again they can be considered as trail-blazers in some of their implications.

2/7 [cf., category 116, p.8 - - Analysis]

•185 When we give a short account of the record of Hungarian social policy, it must be pointed out that the same consistent social spirit prompted the passing of new laws, reforms and other regulations, and the establishment of new institutions. It was through no fault of the Government that the development was not continuous, and temporary interruptions impeded its progress. These were caused by the above-mentioned political and social events. In the beginning, when the Hungarian state had to be reorganized out of almost nothing, the execution of the Government's plans was hindered by poverty, stagnation [425] of production and by inflation. In spite of all these obstacles the Government put through the Land Reform Bill of 1920. After consolidating the affairs of the state, the second 185 stage of social progress arrived, which lasted until 1931. 178 During this period the rate of progress was significant. This stage was marked by rapid economic growth and industrialization. Hungary was then able to eliminate most of the differences which existed between her social legislation and that of the more advanced European nations. [648] The third stage of development could be entered upon only after the second international control of our finances came to an end in 1938. This stage was one of innovations.

185 433 745 It was a salient feature of Hungarian social policy that it was always co-ordinated with the actual productive capacity of the country. Laws which could not be carried out were never enacted. The social policy of the state avoided bringing the country to the brink of bankruptcy, as for instance was the case in Czecho-Slovakia, where there was no harmony between the social and economic programme of the country. At the time of that Republic's dissolution, the consequence of this lack of harmony was

15: Kárpáti G-3 (no date) 1943 EC1 Hungary EC1

the virtual collapse of its indisputably advanced social institutions, especially its social insurance system. The laws enacted in Hungary had a sound economic basis.

In introducing this subject it was deemed opportune to stress these points because hostile propaganda systematically endeavours to convince public opinion in other countries that Hungary is a backward, feudalistic state, led by anti-social elements. Our answer to these charges is the simple recording of facts.

Regarding the social achievements of the pre-war years, we would only refer now to the fact that in the early days of industrial capitalism, Hungary was the fifth among the European nations to regulate child labour, as far back as 1840. She not only anticipated most of the other countries in this respect, but she secured wider protection for her child workers than even England did. It was a distinctive feature of pre-war social legislation that the system of compulsory sick-benefit insurance for workmen was established in Hungary in 1891, not many years after similar legislation in Germany and in Austria. At the time of the well-known Bismarckian social policy, important legislation along the same lines was instituted in Hungary as well.

Hungary, which was designated as a backward and anti-social nation, was the fourth country in Europe to inaugurate institutional family allowances. Hungary, stigmatized as a feudalistic state, distributed more than one million acres of arable land to her small farmers through land reforms after the war. Up to 1942 almost two million acres had been allocated for this purpose. At the time of the first land reform bill 260,000 families received lots for building homes. A second bill, recently instituted, will set

aside an equal amount of land for distribution among those whose security is desirable not so much for economic but rather for social and national reasons.

Post-war Hungary took the lead in Europe in regulating night work and woman and child labour, anticipating in some instances the recommendations of the International Labour Office at Geneva. The system of minimum wages, paid holidays and the restriction of working hours was established at an early date. This system not only covered the regulation of wages in industry, in which it is in force almost 100 per cent, but in agriculture as well, though in the latter it will be necessary to surmount considerable difficulties. The crowning achievement of Hungarian social progress was the new family protection policy, which is administered by a separate institution. Through its state-wide organization it has helped tens of thousands of large families in the country to own their own homes, and raised the living standard of the agrarian population by giving not only economic help, but moral support and vocational guidance as well.

The second world war — in which Hungary participates — necessitated the curtailment of certain social services, as was the case in many other countries. For instance, the regulations governing the limitation of the working week were suspended. Further, for the duration it was made possible for employers to compensate their workers for paid holidays. On the whole, it has not only been possible to maintain the pre-war social standards but to raise them as well. In the 1943 budget 250 million pengős are earmarked for expenditures of a social nature. This amount equals one fourth of the average peace-time budget. The trend of social policy as practised in Hungary and in most other

countries reveals a marked difference in one respect. The 745 Hungarian social policy did not embrace the system of unemployment relief, as this was considered to lower the morale of the working class, and furthermore, Hungary was never in the position financially to spend millions on this type of relief. The Government endeavoured to find employment for the needy rather than hand out money to the unemployed. This policy was justified by results shown in the growth of industrial and agricultural production, and ● 185 of export trade. The Government is continuing along these 433 lines by promoting the industrialization of the country, 659 by decentralizing industrial concerns, especially new ones, and by trying to improve the quality and the quantity of agricultural production through subsidies amounting to 1000 million pengős during the past year and a half.

Special emergency measures of a temporary nature are passed to meet each contingency. Such are the war-time 722 regulations which promote the interests of the enlisted men 654 and of national defence by effective measures, and increased governmental support. Assistance for agriculture at the expense of the other branches of production at the time of the last economic depression was a similar measure, proving its value in reducing the burdens of insolvent farmers through the enactment of various laws. Taking everything into consideration, the general economic policy has not been formulated adventitiously to meet urgent needs and emergencies, but has consciously and consistently striven to carry out social ideals.

The following chapters will serve to give a brief 000 summary of the results achieved by social-minded Hungary during the past two decades, sometimes under most adverse conditions.

20: Gyorgy S-4 (no date)1947 EC1 Hungary EC1

to political maladjustments and eventually to the rise and success of extremist political movements.

Set against this unhappy social background the land reform gains added significance. The redistribution of land involved about seven million acres and some 525,000 persons benefitted from it. A few exceptional land owners were allowed to keep as much as 400 acres, but on the whole, the large feudal estates so characteristic of the country disappeared in a few months.[40] But there is also a negative aspect. Although the land reform succeeded in breaking the power of feudal latifundia, it did not solve all of Hungary's agricultural problems. The new beneficiaries are directly responsible for a considerable decrease in national production for many of them have been in desperate need of agricultural equipment and implements. The machine industry could not supply this equipment as it has suffered more severely than any other major industry of the country. It will certainly be long before agriculture recovers and in the meantime, a full-fledged reconstruction of national industry is the principal post-war problem, as well as the key to recovery.

The three year plan officially announced in January 1947 is centered around the overall objective of restoring industry to the 1938 level of production. This comprehensive plan was prepared by special experts of the Social Democratic and Communist Parties with the cooperation of two ex-Hungarian professors of economics, the Communist expert Jenö Varga of Moscow and Nicholas Káldor of London. Administrative details of this national plan closely parallel the Czech, Polish and Yugoslav projects, which propose to reach the economic levels of the last peace-time year by intensive national effort of two to five years of agricultural and industrial reconstruction. Two features are prominent in the Hungarian three year plan; the forced nationalization of mines and industry, and the establishment of new labor unions as a means of broadening the workers' participation in the country's economic life.

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40 The land reform measure itself was hastily drawn up and carried out, yet it was the only way to induce peasants to undertake any cultivation in 1945. Consequently by 1946 over 90% of the agricultural land was sown. Cf. "Prospects for Agriculture, Danubian Outlook," *The Economist*, Jan. 4, 1947, pp. 6-7. The land reform was at least as much of a political and social measure as an economic move. As such it had a number of further implications; "a radical change as this cannot be carried out without jolts and jerks. Only after all available lands have been distributed will it be possible to appraise the economic and social consequences." R. Vambery, *Hungary—To Be or Not To Be*, pp. 177-178. For an official English language account cf. "Land Reforms and Reconstruction," Istvan Szava, *New Hungarian Domestic Policy*, pp. 29-32.